Increase in CRR to check inflation

1232. DR. T. SUBBARAMI REDDY: Will the Minister of FINANCE be pleased to state:

(a) whether after announcement of measures by the Reserve Bank of India which raised Cash Reserve Ratio to check excess liquidity, he has considered more measures which will be taken to contain inflation from shooting up due to external factors;

(b) if so, the steps Government have taken so far to check inflationary measures; and

(c) to what extent these measures have helped in checking inflation in the country?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) to (c) Containment of inflations remains high on the agenda of the government. Anti-inflationary policies of the government include strict fiscal and monetary discipline, rationalisation of excise and import duties of essential commodities so that there is no undue burden on the poor, effective supply-demand management of sensitive items through liberal tariff and trade policies, and strengthening the public distribution system. Specific measures taken by the government to contain inflation include the following:

- On June 15,2004 government reduced excise duties on selected petroleum products to keep their domestic retail prices in check in the face of rising international prices of oil. Excise duty on petrol was reduced from 30 per cent to 26 per cent, that on high-speed diesel from 14 per cent to 11 per cent and that on liquefied petroleum gas (LPG) from 16 per cent to 8 per cent.
- On August 18,2004, government further reduced excise and customs duties on selected petroleum products. Customs duty on petrol diesel LPG and kerosene were reduced by 5 percentage points each, while excise duty was reduced by 3 percentage points each for petrol and diesel and by 4 percentage points for kerosene.
- On August 20, 2004 government reduced customs duties on non-alloy steel and ships for breaking to 5 per cent from 10 and 15 per cent respectively in order to check high inflation in metals and metal

products. Melting scrap of iron and steel was fully exempted from customs duty.

- To check the liquidity overhang in the system, the RBI hiked the cash reserve ratio (CRR) on September 11,2004 from 4.50 per cent in two stages to 4.75 per cent from September 18,2004 and further to 5.00 per cent from October 2,2004.

- In a bid to control the prices of edible oils and make its availability easy, the government on September 16, 2004 cut tariff values on many vegetable oils by around $50 a metric ton.

- In its Mid-Term Review of the Annual policy Statement for 2004-05 announced on October 26,2004 the RBI hiked the reverse repo rate (i.e. the interest rate paid on bank funds placed with the RBI against government paper) by 25 basis points to 4.75 per cent.

- As there was a fall in the international prices of crude oil, companies reduced the prices of Petrol by up to Rs. 1.26 per litre with effect from November 15,2004.

As a result of various fiscal and monetary measures taken by the government and the reduction in the price of petrol on November 15,2004, the WPI point-to-point inflation has softened from the peak level of 8.7 per cent reached in the week ending August 28, 2004 to 7.3 per cent in the week ending November 27,2004.

Efficiency of public sector Banks

1233. SHRIMATI BIMBA RAIKAR: Will the Minister of FINANCE be pleased to state:

(a) whether bank employees unions insist on a minimum 12.25 per cent hike as a pre-condition to further negotiations with the Indian Banks Association and has threatened to go on strike soon;

(b) whether IBA is aware of the lowering standards of efficiency on the part of the public sector banks and bureaucratic ways of their functioning causing much hardship to the public; and